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The Industrial Republic

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THE INDUSTRIAL REPUBLIC

A Study in Industrial Economics

BY

PAUL W. LITCHFIELD

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THE INDUSTRIAL REPUBLIC

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CHAPTER I

Expansion of Political Democracy

After four years of fighting between all the leading nations of the world to determine under what form of government people should live in the future, we would naturally look for an era of peace. Instead of this, we find a state of anarchy and civil war in some of the nations, and a feeling of industrial unrest in others. *The focusing of attention on the faults of political government has produced a similar focusing on the faults of Industrial Management.*

The result of this is an alarming state of affairs in Eastern Europe which is gradually spreading westward, and every effort should be made to determine its cause, to see what the points of misunderstanding are between management and men in Industry, and to

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find out at what point the two sides can meet with fairness to both.

As the conditions of civil war prevailing in Eastern Europe and the conditions of general unrest spreading westward are the direct outcome of the world war just finished, a proper understanding of the causes of this unrest necessitates a review of the war in the particular phases which have a bearing on the present industrial problem.

Looking back to 1914, we find Germany a highly efficient empire, ruled by a small autocratic minority, who by efficient and progressive direction had united a group of small states into a nation and made the nation very powerful. It reached a stage where it could produce much more than it could consume and had to depend very largely upon the outside markets to sustain its rapidly growing population. It found other nations in political control of the markets.

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The German Nation had come to believe on account of its rapid rise, productivity and power, that its "Kultur" was superior to any other upon earth, and that as a missionary it should give its benefits to constantly increasing areas whether the inhabitants desired it or not. The result was that after many years of preparation for world control, feeling herself capable of carrying her government by force of arms to other countries, she seized the first convenient opportunity and threw down the gage of battle. She engaged her immediate neighbors in a struggle of life or death.

The initial advantage gained by Germany, owing to her state of preparation, followed by her barbarous methods of warfare and arrogant assertion of her desires and intentions, first shocked and then aroused the leading self-governing Nations of the earth to the danger threatening their own free institutions and future safety. The whole conflict took the form of

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a world-wide contest to see whether government should be by self-determination, peoples having a voice in their forms of government, or whether a small autocratic minority should establish itself in the control of Nations on the principle of "Might makes Right."

Russia, one of the leading nations against Germany at the beginning of the war, revolted from the government of the Czar and established a republic. Soon afterwards, the first Russian Republic was overthrown by a second revolt and a Socialist Republic started. This was unable to maintain itself, and a third revolt took place, throwing the Russian Government into the hands of the Proletariat. Conditions of civil war and anarchy became prevalent, and the new Government withdrew from the alliance of democracies, leaving that alliance facing both ways, fighting Autocracy on one hand and Anarchy on the other.

The first issue, that of fighting autocracy,

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was settled in November 1918 by the triumph of Democracy. *The second issue, that of fighting anarchy, has not yet been settled*, it being the avowed intention of the present Government of Russia to sow the seeds of discontent and civil war throughout the civilized world.

The Russian Bolshevik declares his revolt to be not against political hereditary autocracy, but against capitalism. He calls upon the peoples of the world to arise and overthrow it. His remedy is the destruction of all capital, and he proceeds to build up an autocracy based on ignorance of the most cruel kind, setting back the clock by centuries and bringing about idleness and starvation. And the fact remains that he has succeeded, up to the present at least, in putting his ideas into absolute effect over a Hundred Million People of the white race. *A state of peace cannot come on Earth as long as this challenge remains unanswered.*

Bolshevism is an industrial disease, and

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a very contagious one wherever it finds lack of confidence in the management of Industry, and a feeling of injustice amongst working men with their present conditions. The problem which we must solve is to find a remedy for stopping the spread of Bolshevism. The first step toward this solution is a careful study and examination of the industrial situation, ferreting out any injustice which may be present, and establishing a feeling of confidence between the working man and the management of Industry.

The relations between a political government and the people living under that government are very similar to the relations between the Management of an Industry and the People working in that Industry. In other words; management and government are synonymous terms, one being usually applied to the Political and the other to the Industrial World. Since this war has been fought to establish certain

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principles of political government, therefore, it is only natural that working-men should see whether or not Management as it now exists measures up to these principles, and if it does not, they are certainly entitled to know the reason why.

The principles of Government which we fought successfully to establish, are what we believe to be American ideals of Government. Let us see what these are, and the historical development which caused them to be what they are.

Back in the early part of the 17th Century a small group of Pilgrims braved the dangers of the winter ocean, the dangers of an unknown land across the sea, to leave their homes and establish a new form of Government where they would have more freedom and more voice in their affairs than they had at home. Others followed them and these groups formed Colonies along the Atlantic seaboard. For a century and a half they lived as Colonies under the Mother

Country with comparative freedom. In the latter part of the 18th Century, England tried to tax them without representation and these Colonies then declared themselves independent and avowed their intention of governing themselves as an independent Nation. They adopted a new type of Government, where representatives, who formed the governing bodies, were directly chosen by the People.

Failure of this form of Government was freely predicted everywhere. For it was felt that only the few were capable of governing and that the majority could not be trusted with this function.

The newly organized government however, under the Constitution then enacted, has existed substantially without change from that day to the present time. It has been the model from which all Republican Governments have been patterned, and the principles underlying this form of Government have just won a glorious victory

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establishing those principles as the foundation for the Governments of the world for the future.

Yet the Republican form of Government has not been a panacea or "cure all." It has not always met with success in other places. *Successful government by the majority depends upon the character of its citizenship and the ability of the majority wisely to select representatives to govern them.* It requires a community of interest amongst the people, and the absence of sharply drawn class distinctions. Wherever the character of citizenship is low, or it lacks intelligence, democracy has not been an entire success, and a form of Government more or less autocratic has been necessary to maintain order and promote prosperity. The success of democracy, therefore, requires the fostering of education for the greatest number possible, in order that the Government may be of the greatest good.

The Citizenship of our own Country has

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been such, that under a Republican form of government by the majority we have grown to be the most influential power in the world and stand as proof that what the world said could not be done, has been and is being done.

Let us contrast for a moment the development of the German Government during the past fifty years with that of our own. Prior to 1850, Germany was composed of several small states and frequently they had differences of opinion and wars with one another, each State so small that it frequently became prey to other Nations. Lack of unity and common interests very seriously affected their peace and prosperity. But, face to face with a common danger, they united, and in 1870 succeeded in overwhelming the French Empire under Napoleon III so decisively that they became a world power of the first rank. They were welded together in a strong autocratic government in the hands of a few very

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efficient men, who, with a keen realization of the Nation's needs, were, with the almost absolute power given them, able to quickly and quietly do those things which were necessary to enhance the material prosperity and power of the German Nation.

There is no question of the maximum efficiency of autocratic government when administered wisely and justly, and Germany's prosperity so increased by leaps and bounds that the whole nation stood behind the autocratic forms which had produced such results. The same thing happened, however, as always happens under such a form of Government. First came peace, then prosperity, then efficiency, then self-satisfaction, ambition and greed. *Reaching this last stage, the world war was the inevitable result, teaching mankind that no matter how efficient autocracy may be, the only safe form of Government to rely upon in the future is government by the Majority, working to the end of making the majority as*

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efficient as possible. To prove that results have been the same in the past where autocracy ruled, we have but to go back in history to the Roman Empire, the French under Louis XIV, and under Napoleon, and every other large nation in the past which has followed in the same footsteps. In all such cases the ruling party has seen the "handwriting on the wall" too late to let go gradually, a revolution results and destroys in a large measure the efficiency and prosperity previously built up.

CHAPTER II

Genesis and Development of the Labor-Capital Opposition

There is such a similarity between the evolution of political government and industrial management that it is instructive to go back to the origin of Industry, tracing its development to the present stage.

First, man existed on the bounty of nature, hunting and fishing, and by his labor alone acquired those things which were necessary to sustain life. With this method of living, each man required large areas of land to support him, and the world could, therefore, support a very small population. Man soon found however, that he could cultivate the ground, produce food, and that he could raise animals also, instead of depending only on what nature produced

unassisted. This enabled a much larger population to exist on the same area of land.

It was next found that productive capacity would be further increased by subdivision of labor, some men doing one thing and some another, and exchanging the products of their labor. As soon as the condition developed whereby a man was able to produce more than he was himself able to consume, he had the choice of ceasing to work as soon as his wants were supplied, or continuing to work and saving a portion of the product of his labor. The hunter saved some of the animals, fish, and fruit which he secured in the summer, dried them and put them away for the winter. When he started to cultivate the ground, he saved and stored away the surplus to tide him over until the next harvest. After he gathered the harvest, he industriously devoted his spare time to making tools with which he could produce crops in larger quantities with less labor.

This gave rise to Capital which is always the result of and has its origin in the Savings of labor. Some men did not save but ceased to work beyond the point of barely taking care of their necessities. Others continued to work both for their physical and material benefit, and out of their savings created things necessary for sustenance and tools and machinery with which to increase their productive capacity. These savings became what we now know as "capital." The use of this capital by labor resulted constantly in increased production at less expenditure of labor. The savings of this combined effort was again applied still further to increase production, enabling the earth's surface to support a constantly increasing population, until now it is so densely populated that destruction of capital would result in world-wide starvation. Therefore, in Industry today it is absolutely essential that capital and labor go hand in

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hand to produce the best results, in which they have a common interest.

In the old days when tribes existed on the bounty of nature, as the population increased, it was found necessary for one tribe to fight another to kill off the population in order that there might be enough food for the remainder. It was popularly considered that wars were an economic good, as otherwise the standard of living and subsistence would go constantly down as the population increased. The introduction of capital has destroyed this theory and we now know that it is the use of capital, combined with labor, that is the key to the solution of an increase both in the population and in the higher standards of living.

Capital, be it reiterated, is nothing but the Savings of labor, and its logical function is to be put at the disposal of mankind to be combined with labor to make that labor more productive. In other words, capital

should be put at the disposal of those who labor, for the benefit of the community, and the owners of that capital should be entitled to a fair reward for its use. It is evident that this is something entirely different from the view that humanity should loan its labor to the man who owns capital for the benefit of capital, and *it is the difference between these two ideas that is to a large extent at the bottom of the industrial unrest of today.*

To return to the progress of industry: As we pass from the agricultural stage to the manufacturing stage, it becomes advisable to divide laborers into groups, part to do the farming, part to manufacture the tools and machines necessary to increase production, and part for special services, such as doctors, ministers, lawyers, etc., render. This started the so-called crafts where different groups of men specialized in their particular craft or trade, and by study and practice became very efficient in

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these lines, making the tools necessary and exchanging these tools for the products of the labor of others. These men combined their own capital with their own labor and disposed of the product to the best advantage of themselves.

In this evolution some men saved a great deal more than others. Tools became more highly specialized and more costly in time and labor, and only those who had saved considerable were able to own these tools. The men that had these tools were able to produce cheaper than those who had not, which caused the latter to find their business unprofitable, as they could not get sufficient returns in competition to give them an adequate return for their labor. These men in the meantime, however, had become so skilled in their crafts that they could combine their labor with the capital of others and still make more than engaging in some other occupation which did not require capital.

From this grew the wage system whereby a man sold his labor for a fixed amount as being the most convenient and easy way of getting his share of the combined effort. The lack of control of capital on his part placed him at a disadvantage, and in order to protect himself and get a fair share of the product of his labor, he combined with others in a similar position and this has resulted in the formation of trade unions for the mutual benefit of those who work for wages. The result of this was that he built up a community of interest with others of his class, and by force of numbers was able to get better wages and better working conditions than would otherwise have been the case. A natural reaction was the creation of a community of interest among owners of capital and they in turn joined to protect their capital or savings, to see that it also had a fair return from the combined efforts of capital and labor. This resulted in the opposition of the two classes,

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Labor and Capital, each more or less sharply defined, each dependent upon the other, and each trying to see that it got its fair share of the results of the combined effort. For several centuries past the proportion of wage earners who combine their labor with other people's capital has been constantly increasing over the people who combine both capital and labor in their own supervision, such as the farmers, professional men, and others, until at the present time an extremely large portion of laborers are wage earners with little if any capital at their own command.

In the beginning the division of the product of industry between those who furnished the capital and those who furnished the labor was relatively a simple matter, as the groups working together were very small. The men who furnished the capital were working with the others, and understood the wants and needs of labor, and were in a position to accurately

measure the service rendered by those who furnished the labor. But in order to increase production and lower costs, labor became further and further subdivided and industries changed from small units to very large units, concentrated in centers of population and in convenient locations with reference to power, the gathering of raw materials and distribution of finished product. Industries of this nature so much better served the community that others were soon at a disadvantage and went out of business.

The efficiency of this so-called *Mass Production or Big Business* organization of industry produced so much greater results that those whose capital was invested in this form of organization received very large returns, and the owners of this capital, having much more than sufficient to support themselves, either for the present or future, found that work of any nature for them became unnecessary and many

of them simply continued to loan their capital and live upon the returns from this, i. e., instead of running the business themselves, they hired other men to manage the business for them.

These men were hired to perform labor, which had formerly been done by the capitalist, this being to look after and increase the share which capital should have in the reward. In other words, they were laborers hired to manage other laborers, but not with the same community of interest with the other laborers, and their reward was to be measured by the amount that they could increase the capital which they were hired to manage. In consequence, lack of interest in the collective result of the industry outside of the wage received (which seemed to bear no particular relation to the success of the industry as a whole), soon seized upon the rank and file of industrial employees. No longer having any acquaintance with the men who labored in industry, soon caused

a lack of interest on the part of those who supplied the capital. The employees, feeling their wage reasonably assured, started to spend all of their wages for current needs and did not save for the future.

Such has been the genesis and development of the labor-capital opposition. *The result of this evolution has been to create a class of capitalists, who do not work, and a class of laboring men who do not save and who have no capital.* It must be perfectly evident to anyone that there can be no community of interest whatsoever between these two classes, and the division of a population into two classes of this nature results in endless friction and continual collective bargaining, neither side being satisfied with the ever-varying results.

Thence follow strikes, lockouts and loss of product, as the capitalist who does not work always desires to have as much reward as the capitalist who does work, and the laboring man who saves nothing always

desires to live as well and be as well taken care of in the future as the man who saves a part of the results of his labor for a rainy day. Neither of these desires are right, but are merely special privileges which can only be granted by injustice to others. As there never can be any mutual ground between the capitalist who does not work and the laborer who does not save, the power of either one of these groups to obtain for itself special privileges, to which it has no right, should be curbed.

The tendency of combinations of capital and combinations of labor to build up large powerful bodies, each one for its own interest, is, therefore, undemocratic and un-American, and in the interests of all there should be substituted for this something which would increase the incentive for labor to save more, which in turn would cause it to produce more. We should also endeavor to see that capital which does not labor should be restricted in its ability to

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acquire more than the current market rate for the use of its capital, and remove from such capital any possibility of being used on the principle of "Might makes Right."

Increased production and the ability of the earth to support an increasing population depends entirely upon both labor and capital working together. Economically therefore, they have a common interest and they should be so organized that this common interest is so apparent to both that they are working together in harmony.

CHAPTER III

Present Status of the Labor-Capital Opposition

Examining the typical form of large Industrial Organizations of today, we find a very large plant investment, often running into many millions of dollars in value, for purposes of production and distribution. The capital which this represents has been furnished often by thousands of different people, who have presumably placed their savings in this particular enterprise because they thought that their savings would bring a higher return when invested here than elsewhere.

Such investors may be divided into three classes; first, those who have invested in the form of a straight loan to the business, taking a mortgage on the plant as security.

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The reward for the use of this capital is usually a small interest rate which is paid out of the profits of the business, and if there are no profits they have asked that the plant be sold and that they be paid out of the sale of the plant, which necessitates the discontinuance of the business. In this, capital takes very little risk. Such investors are usually known as *bond holders*.

Second; there are those who lend their capital to the business, taking all of their return out of the profits of the business and who insist that their claims have preference before lending their capital, and with this preference are satisfied to take a fixed return out of the profits, allowing those who do not have this preference to take the balance. These are known as *preferred stock holders*.

Third; there are those who loan their capital to the business, agreeing to take as their share only what is left after the wages and all bills are paid, and the bond holders

and preferred stock-holders taken care of. These are usually known as *common stock-holders*, and as they take the largest amount of risk, they usually are in control of the operation of the Industry and are the most vitally interested in its success.

The men who supply the labor furnish their services at a fixed rate and receive their return either in the form of wages or salary. They are usually paid at so much per piece for the articles produced, or so much for the time which they work, which amount is also based upon the amount which they are expected to produce within a given time. Here we run across the mistaken idea that a man's time is worth so much money, regardless of what he produces. The inconsistency of such an argument is easily demonstrated in the fact that the Industry can only sell the products of labor and not the time used in that production. Therefore, there is no sound economic reason for paying for time, and wages must be based

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entirely upon the amount produced. The fact that it is expressed in units of time is incidental and not fundamental. *Time is for use: it is not for sale.*

Now we envisage all who supply either capital or labor and witness them united and working together in production. The products are distributed and the reward comes in. If the Industry is going to continue, a certain amount of the reward has to be used to replace the raw materials and equipment which were used up in making the finished product, and the balance is either to be invested in an expansion of the business or divided as nearly as possible between the capital and labor used in production in direct proportion to the service rendered.

Theoretically there should be no sum expended for labor or for interest or dividends until the products of industry have been sold and money received in exchange. But this is obviously impossible in modern

industry, since it is often months or years before some of the capital invested is sold as finished product, and often many months before the article in which labor is expended is sold or exchanged. Owing to the large number of men who have not saved sufficiently to exist in the meantime, an estimate has to be made in advance upon what the results of the business are going to be so that these may get an advance return. It is impossible to make the wage a full payment to labor and at the same time a fair payment, but we have come as a matter of practice to do this very thing by making the wage payment the full return for labor's share in Industry.

What is the result? The laboring man says either he can't or he won't take any financial risk on the successful and profitable operation of the Industry, but he will take his wage as his full return for his share in the partnership. It follows that those who supply the common capital of

the Industry assume either from choice or from necessity, all the risk and will quite naturally claim everything produced in excess of the fixed obligation to labor in the form of wages, and the fixed returns to other capital which is safeguarded against real risk.

So long as labor takes this stand, the owners of common capital are entirely justified in their position, and the share which labor has received in the past, based upon its acceptance of the "wage in full," has been its fair reward. If labor were to take the same attitude in the future, those who supply common capital are entitled to continue to receive *the same* proportion of the reward of Industry that they have received in the past, *up to a certain point*.

All know that capital has been so well rewarded in many instances by this arrangement, that those who provide the common capital, realizing the power which this gives them, are often apt to say to labor that

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whether labor wishes to take a risk with them or not, that they don't wish labor to have the opportunity of doing so. This attitude is entirely wrong. Labor may not have any capital to risk, but it is risking all it has to risk, i. e., its labor, and its ability to get the best results from this labor is bound up to a large extent with the permanency and profitableness of the business. Labor may not risk a proportionately large amount based upon the productiveness of what it lends, but it does risk a very large amount in proportion to what it has to lend. *It is, therefore, only a matter of mere justice that if labor has received the current wage and capital at the end has received the current rate of interest, that any surplus beyond this must necessarily have been created by the combined use of capital and labor, and should be divided between the two in some proportion and not go entirely to Capital alone.*

With this incentive the increase in quan-

tity and efficiency of production will provide means for capital to share a percentage of earnings with labor without net loss to itself.

From all sides today we hear the economic axiom that the only way to keep wages at their present high level or increase them in the future is to become more efficient and by so doing, to increase production.

When profit-sharing or joint stock ownership with labor becomes a more established custom, companies who do not offer such opportunities, will not only find it difficult to obtain new men of the right type, but will not be able to retain those whom they now have. The advantage and good-will accrue to those who first adopt it.

Assuming the condition to prevail universally that labor should receive its full payment in wages and capital take all the excess, the natural consequence would be to divide Industry into two classes, one whose interest is entirely in wage, and the other entirely in profits. The first class must

realize that so long as the business is successful enough to obtain the capital necessary to continue its operation, any further profits are detrimental to the interests of labor and, therefore, they should strive to have their wage so high that excess profits would not be possible. On the other hand those supplying the capital would realize that so long as sufficient labor can be obtained to operate the business, the wage must be kept as low as possible in order that the profits might be larger. *This is the condition which generally prevails in Industry today, and by having a difference of interests rather than a community of interest between the two parties, conditions promoting friction and unrest are always present. This condition can only be overcome by bringing about a community of interest.*

One of the reasons labor heretofore has not wished to take a risk in the business in relation to its reward has been the feeling on the part of labor that it has no voice in

the management of the business. It is not in position to affect the profits. Therefore, it should not be called upon to take a speculative interest in the business, but should make those in control take all the risk. To very many workers this is a very satisfactory arrangement, but there are always some who have saved a little, who would be ready if they had the opportunity, to risk their savings with the other capital, and there are others who think that risking their labor alone when they have no capital is sufficient to justify their having "a say" in the selection of representatives to administer the enterprise. There is certainly justice in this contention which cannot be brushed aside. It must be recognized and fair representation given. While it is difficult to determine exactly what fair representation should be, we must attempt to provide for it as far as possible and not dismiss the idea as being impractical. The manifest injustice of no representation must be discontinued.

CHAPTER IV

Clues to the Solution

To recognize the opposition of Labor to Capital in the present organization of industry and to remedy it requires a progressive change in industrial organization which can be undertaken in our Country with greater safety than in almost any other.

Our problem in Industry today is very similar to that which confronted our forefathers in 1776 and 1783. At that time we found our people being taxed without representation by a foreign government, and the distribution of part of the product of their labor being made by others many miles away with whom they had no common interest.

Today we find large numbers of working men having their wages fixed by people

who, while they have some interests in common, have a great many interests opposed. We also find that often the share of reward between those who labor and those who supply the capital is not fairly divided. It was the task of our forefathers to see that all parties having an interest at stake were represented in the Government, and that the privileges and rewards created were evenly distributed. They realized that justly to make an even distribution of privileges each must do his share to produce the privileges. *In other words, for every privilege there is a corresponding duty.*

A group of representative men were selected from among the people to form a constitution which should be the fundamental law by which the inhabitants of the country should be ruled. How they met this problem is shown by our Federal Constitution, and the wisdom of their work is evidenced by the long period of years under which the people have been governed

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by this document, the large number of people now governed by it, and also the model which it has been for other lawgivers.

An analysis of the underlying principle of the Federal Constitution affords us the surest guide which we have for solving the present industrial problem. This principle is that it is a government by the people, based upon the equality of individuals, and that human rights stand first and all other rights secondary, whether they be from birth, education, wealth, or from other sources, at the same time recognizing property rights.

By enforcing the duty of paying taxes sufficient security is given to enable the people to get such additional capital as they may require at even better than the current rate of interest, and at the same time, give it no voice in the government as capital. Without the power of taxation or compulsory savings, capital could not be obtained without representation or additional security of some sort, and it would

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have to have direct representation in the Government. It is the desire of the workers that this same condition should exist in industry. In order to obtain this condition by honest methods, sufficient security must be given to capital required in the Industry, to secure it at the current rate of interest, without necessarily giving it a voice in the management to insure its safety.

The only possible way to do this and still have the workers in control of the industry the same as they are in control of the Government and with the same kind of equality of representation, would be for the workers to save and jointly pledge their savings to the development of the business so that other capital which they require is satisfactorily safeguarded to such an extent that a sufficient number of people will loan the required capital to the industry without requiring any representation. Until the workers are able and willing to do this, or can be compelled by a majority of

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their own people to do so, it is quite obvious that capital must have representation. If labor does not wish to assume any risk at all, or is not able to do so, then capital must be in control of the management, which position it now occupies.

Capital should not assume, however, that because the majority of workers cannot or do not wish to invest their savings in the enterprise, that none of them should be permitted to do so. It should encourage and offer facilities for those who labor and save to become interested in the operation of the business and distribution of the profits. It cannot be expected that capital, which is already invested in a business, should relinquish control of that business until it is safe-guarded for the future, as it has not the ability to detach itself from the enterprise once it finds itself in an unsatisfactory position, the same as the man who labors can detach himself from the enterprise at will.

CHAPTER V

Rights Involve Duties

There is one fundamental economic theory which in the past capital has either been ignorant of, or has totally ignored. This is the relation of human rights to property rights. Capital must come to realize that human rights come first and property rights second. The law recognizes this to the extent of making wages the first lien on an industry before interest and capital are recognized. It is also recognized that after labor has received the current market wage, and this has preference, that it should be entitled to no further rights until capital has received the current rate of interest for its use.

The desires of the working men have been limited very largely to four points; (1)

Higher Wages, (2) Shorter Hours, (3) Representation in the Management, and (4) Share in the Profits.

The latter two can be justly recognized only when the workers are prepared to take the responsibilities and duties safeguarding the rights of the capital invested in the Industry, the same as they do as citizens in protecting the Government by paying taxes. If the framers of the Constitution correctly solved the problem of government politically, then we are right in the belief that the problem of Industrial Management is analogous to that which they faced, save that as applied to Industry we must determine the logical steps to pursue in changing the present industrial management over to the Federal form, with just regard for the rights of both capital and labor.

The first step is to establish an Industrial citizenship, creating equality of powers of the individual citizens to choose representatives to run the business. There must,

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of necessity for good business, be certain restrictions for the qualification of citizenship. These restrictions should only be placed upon the age and intelligence of the individual to insure a majority which would be able to safeguard the best interests of all. These limitations should exist only so long as the individual did not qualify, and every opportunity should be given him to be able to qualify as soon as possible, so that all might have the opportunity of citizenship if they are ready to assume its duties. These citizens would have the power to elect representatives who should govern the policy of the business to the extent of safeguarding their human rights. *Only as they provide their own underlying capital for the business, may they gain control to the extent of being able to limit the capitalist's rights.* This would mean joint control by representation of both labor and capital until such time as this point had been reached. Until that time representative control by

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the workers should only be to the extent of protecting their human rights while the control of property rights should remain with those who furnish the property.

In order to conform to the ideal of management which we have in our National Government, it would be necessary either that a certain portion of the wages paid, be automatically reinvested in the business in a way similar to that with which we raise taxes, or else that the excess profits of the company after wages and current interest rates on capital have been paid, should be divided and the share of labor be reinvested in the company at the same value as the capital already similarly invested. So long as labor is in position where it has to take its share in form of wages, which are anticipated profits, or as long as labor is unable to have savings to make good any losses which capital may sustain in the operation of the business, just so long should the control of that capital

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remain with the owners of it. *Any other solution would be confiscation and injustice.*

CHAPTER VI

The Industrial Republic

Before attempting an advance in this direction it would obviously be necessary to sever all connections with other organizations whose functions might interfere or conflict with those of the governing body elected by the workmen and management. Only by clearing our decks for action in such manner can we build up the confidence between labor and management which is necessary for co-operation and harmony.

If we are to form an Industrial Republic it is logical that we should study the organization and workings of the Political Republic, and the United States Government affords this opportunity. In defining a plan of organization along these lines, the first step is the determination of the limita-

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tions of citizenship. There must be, 1st, a certain age limit within which it is presumed a man should ordinarily have acquired sufficient intelligence to be expected to use good judgment; 2nd, knowledge of a common language, and, 3rd, a sufficient time in the Industry to become familiar with its needs. These Citizens should then elect representatives to form a management to insure their human rights, such as fair market wage, fair working conditions, and other matters pertaining to the safety and welfare of the people engaged in the Industry. In order to protect the Industry against radicalism, and taking steps hastily, which might afterwards have to be corrected, we could well adopt the plan of our forefathers and establish two bodies and make it necessary for legislation to pass a majority of each of these bodies and also the executive body.

Persons eligible to serve as representatives would need still further qualifications as

regards age and length of service, than would be requisite for mere citizenship. This was found very necessary for the safety of our political republic in its early days and is doubly necessary for an Industrial Republic, for the following reason:

A Government by having the power to fix laws for immigration and tariffs or embargoes on importation of materials, can artificially control the supply of labor and capital of the Nation, to prevent an inrush of either one upsetting the balance, in case it makes mistakes in legislation. In other words, it can stave off the disastrous results of unwise legislation and correct its mistakes. With Industry, on the other hand, unless it is protected by patent monopoly granted by the Government, its mistakes can almost instantaneously be taken advantage of by its competitors with very little prospect of recovery of the lost ground. In other words, a non-monopolistic Industry is in a similar position to a Nation always

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at war. We have always found that the Executive Branch of the Government must be entrusted with greater powers in the face of common danger than is necessary to grant to it in time of peace. It is for this reason that capital is unprotected and must have sufficient power to protect itself against business competition, either by inherent right or by consent of the majority of its Industrial Citizens. So long as it is in this position, it must have the power to overrule the opinion of the popular majority on such points as do not interfere with the human rights of those engaged in the business, to the end that its principal and fair interest rate be safeguarded.

We may, therefore, assume that the majority of industrial citizens should select a House of Representatives with certain qualifications for membership, and a Senate with still higher qualifications for membership, and that until such time as the rights of capital can be properly safe-guarded, the

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Executives should be the representatives of capital, with veto power over such legislation as might be unfair to the rights of capital, while provision should be made for over-ruling the veto of Executives in such matters as might be distinctly human rights, which take precedence. *It should be in the power of the majority of all industrial citizens to insist that all who wish to remain citizens and participate in representation and the rewards of Industry, should make such contribution from their wages or salaries to the Industry, as might seem necessary or advisable to properly safeguard the rights of capital to the further end of their regaining that degree of financial participation which they lost through past acceptance of advance returns in the shape of wages.*

In the National form of Government, the citizens make the laws and the tax payers furnish the capital. In Government citizens and tax-payers are one and the same. In

Industry, under this form, the Industrial Citizens would be making the laws and the common stock-holders would pay the taxes, so that both would have to be represented. The only way to make both bodies the same would be to pay off all of those who furnish capital, who are not members of the Organization, and insist that all common stock, once owned by members of the Organization, could only be sold to other members of the organization. In this way the same condition would exist as in our Federal Government. It is true that each individual would not hold the same amount of stock, any more than each citizen pays the same amount of taxes. An identical condition exists however in both management and Government: that the best results will be obtained as incentive and opportunity is given to acquire property; and while taxes are paid somewhat in proportion to one's ability to pay, they must never be assessed in such a way as to discourage anyone from

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producing or stop the desire to save.

Having organized Industry on this basis, its success would largely be measured by the character of its citizenship as regards its intelligence in electing representatives to manage wisely, its individual desire to save and contribute both its energy and savings to the business, and its realization of its duty towards the organization, as well as of its expectation of share in the privileges.

CHAPTER VII

Industrial Citizenship

In every industry there are three parties to its success; (1) the Labor, and (2) Capital necessary to engage in production and the (3) Customer to take the product.

In seeking the customers, we find many different kinds of people to whom to sell. Some are very reasonable and only want a square deal, getting as much as they are entitled to, based upon cost of production plus a fair profit. The only measure they have of this as far as their particular interest is concerned, is that the efficiency of the manufacturing organization be such that they get as good value as they could get by dealing with a competitor. This should be sufficient to obtain the good-will of a reasonable customer, and anything

which he gets in addition to this should increase the amount of good-will and fortify the Industry against possible temporary mistakes in the future. This class of customers should be earnestly sought after and obtained.

On the other hand, there are many other prospective customers who are not satisfied unless they get very much better product than they can get anywhere else, and they would even see the labor and capital employed insufficiently rewarded in order that they might get a better product at a lower price than they could get it elsewhere. This class of customers should be avoided in fairness to the other customers and to all the interests concerned.

Next we consider those who furnish capital. Many people having the capital to lend are satisfied with the current interest rate for the use of their capital, based upon the risk taken, this being sufficient to obtain their good-will, while any amount

in addition to this creates such increased good-will and gives them a desire to supply the capital to tide the Industry over any temporary difficulties into which it may run. Every effort should be made to obtain capital from men such as these. But, we find others who have capital to lend, who are only satisfied when they obtain the highest possible return for their capital, regardless of the rights of the customer to obtain honest product, and regardless of the rights of the workers to obtain an honest return for their labor. *Such owners of capital are undesirable and every effort should be made to replace them with men of the other class.*

With reference to the labor which operates the Industry, we find many who are satisfied with a fair return for their labor and quite ready to concede to capital a fair return, and to the customer a fair product, as long as they receive the current market rate for their services. They also have

sufficient good-will towards the company to produce as much as they can without detriment to health and their good-will is increased by sharing in any further reward after the other two partners have been taken care of. *Every possible effort should be made to obtain the good-will of this class of labor.*

On the other hand, we find many laborers who selfishly believe that their effort is the only contributing factor to the success of the business, and think of nothing but getting the highest return for their labor regardless of their ability or the amount they produce, and regardless also of the rights of capital and the customer. Often times, they figure that their time alone is worth their reward, regardless of what they produce, and use no effort to do an honest day's work.

As in the case of undesirable customers and capitalists, this type of labor should be antagonized and turned away whenever pos-

sible in all fairness to the others. No inducement should be made to retain them in Industry, and definite encouragement should be given them to leave and seek employment elsewhere.

The undesirable partner, whether he be customer, capitalist or working man, whose only reason for being a partner is his supreme selfish interest, can only be satisfied by unfair sacrifice on the part of the other partners. Therefore, his good-will should not be sought and any effort spent upon him should be by way of inducing him to take a different view of things. When such men can be eliminated from industrial organization, those who remain will have a community of interest based on justice and fairness, and the good-will of each should be sought after by the other two.

It is, therefore, desirable that the policy of up-to-date Industrial Organization be such as to gather together a citizenship of the right type, offering to all who happen to be

engaged in the Industry, every opportunity by means of education, example and friendship, to become a citizen of right type and if these influences fail, to eliminate the undesirable partner from the Industry. An Industrial citizenship of this nature will break down the present diversified interests which are always a source of friction and cause for unrest, and by equality of opportunity create an organization composed of men, the great majority of whom will have a common interest. *The minority will always have the opportunity of qualifying to join with them, and if they do not do so, will at least be powerless materially to interfere with the success of the organization as a whole.*

It is, of course, true that there will always be an undesirable minority of employees in any Industry, the same as there are undesirable inhabitants in any country. These perform an economic function as Industry cannot always employ the same number of people, and must give oppor-

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tunities of advancement from time to time. As advancement is a relative term, there must be some who do not move up and these naturally belong to the class which does not wish to be fair and productive. As the needs of Industry for labor vary, steady employment to those trying to do their best can only be provided by laying off those who have not earned steady employment. It should not be the duty of any particular Industry to provide steady employment or advancement for these latter, but there is always a distinct duty that the industry do everything possible to educate and assist such workers to change their ways and produce and save, becoming good citizens of the Industrial Republic.

The world does not owe every man a living, but it does owe every man the opportunity to earn a living, and each Industry as a duty should do its share in affording men the opportunity to earn that living up to its ability to do so.

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Having adopted a policy of careful selection of its working force, management can then grant to those who qualify by age, length of employment and, possibly, understanding a common language, the rights of Industrial Citizenship on the basis of equality for the purpose of selecting representatives by a direct vote with power to legislate on all matters, to insure justice to the working men as a whole, and to represent them in dealing with the other partners, capital and management, for the mutual advantage of all. Such an Industrial Republic would provide for a legislature composed of two Houses, elected by the working force of the Industry, the qualifications of the Upper House being such as to make this House the more conservative of the two by restricting membership to men of somewhat mature age and longer period of service with the Industry. This is especially necessary where there is a large labor turnover, where the qualifications for industrial citizenship are

inadequate properly to safeguard the industry, although such precautions would automatically become more unnecessary when an Industry became stable, with a relatively constant working force.

This Industrial legislature would have the power to legislate on all matters affecting justice to the working force, while measures passed by a majority vote of both Houses would go to the Chief Executive of the Branch of the Industry which the Legislature represents, or the Industry as a whole, in case it covers this extent, for approval or veto, the same as is done in our Government by the Governor of a State or by the President. In case of veto, a measure would go back to the Houses, and if passed by a two-thirds vote of both Houses, such action would be final, unless it should be a matter unfairly affecting the interests of those who furnished the money, or the customers who buy the product, which would be distinctly unfair to them, in which

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case it would go before the Board of Directors of the Company for decision.

If all capital used by the Company is properly safe-guarded as to principal and interest by the savings of the working force, and through ability to tax the working force, as in the case of our National and State Government, the passing by a two-thirds vote over the veto would be final without reference to any other body. This would be the condition of an ideal industrial republic. This condition can justly be reached only when the working force as a whole has the ability and intent to risk its own capital as a proper safe-guard for outside capital which it uses in its business.

Such a state of industrial organization is a highly desirable one as being in line with our American ideals of Government. In such an organization all capital except that furnished by the laboring force, would be put at the disposal of the laboring force for the purpose of production and the general

benefit of the community, and yet due consideration of the rights of capital would be given. Any attempt of the working man to appropriate the capital of others for his own use, without proper safeguard and without paying a fair return for its use, would only result in disaster. This capital would soon be used up, and it would be impossible for the Industry to obtain any more.

On the other hand, any attempt of those who furnish capital to insist upon holding control of the Industry, without affording the opportunity for those who labor to apply their savings and pledge their capital to the support of the Industry, or to prevent the laborer from being represented in the management of the business, to the extent to which his interests are at stake and in which he has taken a risk, will result in a discontented labor force, based upon a feeling of injustice, which will so adversely affect production that the interests of those

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who furnish the capital and who buy the product will be in jeopardy.

The time has now arrived when encouragement must be given to the progressive evolution of Industry from the state where labor hires itself out to capital, to the state where labor will manage the business and undertake the obligations which are necessary to insure those who have capital that they may safely lend it to the Organization of those who labor, for the mutual benefit of both.

The main cause of industrial unrest is the ill-will of the laboring force. We have spent relatively too large an effort in the past to obtain the good-will of the customer, and those who furnish the capital, and too little to obtain the good-will of labor. The time has come for a serious consideration and some definite action toward the solution of this problem. Realizing the problem, the possible solutions will be many. Any real solution, however, must obtain the

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good-will and confidence of labor, and this can only be done by direct representation of labor in management.

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